

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Rockwood, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Rockwood, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Rockwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockwood, Michigan (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rockwood, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockwood, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of the City Council
City of Rockwood, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockwood, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 16, 2006

City of Rockwood, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Rockwood, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$3,000 this year.
- Property taxes are the City's single, largest source of revenue. Property tax revenue for general operations increased by approximately \$109,000 in the current year despite holding the operating millage at 16.0, which is less than the amount legally available to levy. The majority of the increase was due to inflationary increases in taxable value and some modest tax base growth.
- District Court revenue increased by approximately \$85,000 in the current year as a result of the motor carrier enforcement program. Additional expenses were also incurred as a result of this program.
- The City completed the construction of an equalization basin to help support the wastewater treatment plant using funds from the Wastewater Treatment Fund.
- The project for the development of Patricia Lezotte-Quick River Walk Park has been put on hold until pending agreements with Wayne County are finalized and other grant funds become available.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Rockwood, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30:

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Assets						
Current assets	\$ 1,888,734	\$ 2,083,287	\$ 1,269,967	\$ 742,695	\$ 3,158,701	\$ 2,825,982
Noncurrent assets	5,878,418	5,642,738	4,654,233	4,781,734	10,532,651	10,424,472
Total assets	7,767,152	7,726,025	5,924,200	5,524,429	13,691,352	13,250,454
Liabilities						
Current liabilities	552,756	421,462	409,634	175,756	962,390	597,218
Long-term liabilities	3,618,398	3,454,939	1,998,703	1,933,697	5,617,101	5,388,636
Total liabilities	4,171,154	3,876,401	2,408,337	2,109,453	6,579,491	5,985,854
Net Assets						
Invested in capital assets -						
Net of related debt	2,216,610	2,145,859	2,457,158	2,801,734	4,673,768	4,947,593
Restricted	870,287	974,660	14,696	-	884,983	974,660
Unrestricted	509,101	729,105	1,044,009	613,242	1,553,110	1,342,347
Total net assets	\$ 3,595,998	\$ 3,849,624	\$ 3,515,863	\$ 3,414,976	\$ 7,111,861	\$ 7,264,600

The City has combined net assets of over \$7.2 million. Business-type activities comprise approximately \$3.4 million of the total net assets. In the current year, the City's total net assets increased by approximately \$150,000.

City of Rockwood, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the fiscal years ended June 30:

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenue						
Program revenue:						
Charges for services	\$ 580,008	\$ 697,051	\$ 946,102	\$ 972,431	\$ 1,526,110	\$ 1,669,482
Operating grants and contributions	371,005	213,708	-	-	371,005	213,708
Capital grants and contributions	88,961	60,049	194,782	-	283,743	60,049
General revenue:						
Property taxes	1,698,642	1,828,172	138,779	127,209	1,837,421	1,955,381
State-shared revenue	343,491	340,306	-	-	343,491	340,306
Unrestricted investment earnings	42,378	78,212	23,160	27,690	65,538	105,902
Other	74,606	57,498	-	-	74,606	57,498
Total revenue	3,199,091	3,274,996	1,302,823	1,127,330	4,501,914	4,402,326
Program Expenses						
General government	1,329,764	1,281,597	-	-	1,329,764	1,281,597
Public safety	1,187,615	1,112,400	-	-	1,187,615	1,112,400
Public works	511,939	275,185	-	-	511,939	275,185
Recreation and culture	105,485	185,844	-	-	105,485	185,844
Interest on long-term debt	141,616	166,344	89,589	89,589	231,205	255,933
Water and sewer	-	-	1,072,013	1,138,628	1,072,013	1,138,628
Total program expenses	3,276,419	3,021,370	1,161,602	1,228,217	4,438,021	4,249,587
Change in Net Assets	\$ (77,328)	\$ 253,626	\$ 141,221	\$ (100,887)	\$ 63,893	\$ 152,739

Governmental Activities

The City's total governmental revenues increased by approximately \$76,000 despite decreases in state-shared revenue and grants and contributions. The increase, which represents 2.7 percent, was primarily due to increased property tax revenue and an increase in District Court fines and fees revenue.

During the year, expenses decreased by approximately \$255,000. The decreases were primarily due to decreases in road maintenance expenses.

Business-type Activities

The City's business-type activities consist of the Wastewater Treatment Fund and the Water and Sewer Fund. The City provides water to residents from the Detroit Water System. The City provides sewage treatment through a City-owned and operated sewage treatment plant. As in the prior year, the City had an operating loss in the Water and Sewer Fund. This loss was essentially due to depreciation expenses, which is a noncash cost. The Wastewater Treatment Fund's revenues were more than that of the prior year. The Water and Sewer Fund's revenues were slightly less than that of the prior year. Each fund's revenues exceeded the respective funds' cash basis operating expenses. This modest amount of excess revenue is relied upon to provide for major repairs of the systems as well as system replacement and improvements.

City of Rockwood, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2006 include the General Fund, Major Roads Fund, Local Roads Fund, Commerce Park Fund, and the City Hall Construction Fund.

The General Fund pays for most of the City's governmental services.

General Fund Budgetary Highlights

Over the course of the year, the City amended the General Fund budget to take into account events during the year. The most significant changes were increases in the estimated legal and recreation expenses of approximately \$44,000 and \$31,000, respectively. These amendments were the result of unanticipated expenditures incurred by the City. Overall, most of the City departments stayed within budgeted expenditures; however, the City did not budget for the revenue or expenses related to approximately \$60,000 of grant funding received. The General Fund's fund balance increased from \$605,291 a year ago, to \$743,867.

Capital Asset and Debt Administration

At the end of 2006, the City had approximately \$10,424,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, water and sewer lines, and infrastructure.

The City continues to collect property tax revenues from specific millages to pay for the sanitary sewer debt, fire equipment debt, and the City Hall building debt.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for a freeze on property tax rates. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of the rate of inflation, or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

During fiscal year 2007, the City is planning to continue work on the Downriver Linked Greenway Initiative. The City has earmarked funds for its share of the project and is working with Brownstown Township and the City of Gibraltar to complete the Woodruff Road link.

City of Rockwood, Michigan

Management's Discussion and Analysis (Continued)

The City anticipates that the water rates will have to increase somewhat in 2007 to address inflation and the increase in the City of Detroit wholesale water rate charged to Rockwood. The City staff is in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2007 to discuss the need for such an increase.

In the area of development, a new Marathon gas station opened, creating 40 new jobs in the community. In addition, plans have been approved for the construction of a Rite-Aid Pharmacy in the center of downtown and demolition of the abandoned Benckiser plant is underway as the City looks to revitalize the industrial park.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

City of Rockwood, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 1,788,089	\$ 589,124	\$ 2,377,213	\$ 55,442
Property taxes - Delinquent	78,271	5,026	83,297	-
Accounts receivable - Customer billings	-	129,421	129,421	-
Other receivables	23,507	1,500	25,007	-
Interfund balances (Note 6)	23,473	(23,473)	-	-
Due from other governmental units	74,808	-	74,808	-
Inventories	-	41,097	41,097	-
Other assets	95,139	-	95,139	-
Capital assets - Net (Note 5)	5,642,738	4,781,734	10,424,472	-
Total assets	7,726,025	5,524,429	13,250,454	55,442
Liabilities				
Accounts payable and other accruals	122,630	97,781	220,411	-
Deposits	70,880	17,975	88,855	-
Deferred revenue (Note 4)	37,217	-	37,217	-
Compensated absences (Note 7):				
Due within one year	15,000	-	15,000	-
Due in more than one year	133,795	13,697	147,492	-
Long-term debt (Note 7):				
Due within one year	175,735	60,000	235,735	-
Due in more than one year	3,321,144	1,920,000	5,241,144	-
Total liabilities	3,876,401	2,109,453	5,985,854	-
Net Assets				
Invested in capital assets - Net of related debt	2,145,859	2,801,734	4,947,593	-
Restricted:				
Streets and highways	741,342	-	741,342	-
Debt service	208,135	-	208,135	-
Drug forfeiture	25,183	-	25,183	-
Unrestricted	729,105	613,242	1,342,347	55,442
Total net assets	<u>\$ 3,849,624</u>	<u>\$ 3,414,976</u>	<u>\$ 7,264,600</u>	<u>\$ 55,442</u>

City of Rockwood, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,281,597	\$ 145,600	\$ 30,340	\$ 60,049
Public safety	1,112,400	513,642	-	-
Public works	275,185	-	179,434	-
Recreation and culture	185,844	37,809	3,934	-
Interest on long-term debt	166,344	-	-	-
Total governmental activities	3,021,370	697,051	213,708	60,049
Business-type activities:				
Wastewater treatment	282,795	318,239	-	-
Water and sewer	945,422	654,192	-	-
Total business-type activities	1,228,217	972,431	-	-
Total primary government	<u>\$ 4,249,587</u>	<u>\$ 1,669,482</u>	<u>\$ 213,708</u>	<u>\$ 60,049</u>
Component unit - Tax increment financing authority	<u>\$ 6,213</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Loss on disposal of capital assets				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - July 1, 2005				
Net Assets - June 30, 2006				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,045,608)	\$ -	\$ (1,045,608)	\$ -
(598,758)	-	(598,758)	-
(95,751)	-	(95,751)	-
(144,101)	-	(144,101)	-
(166,344)	-	(166,344)	-
(2,050,562)	-	(2,050,562)	-
-	35,444	35,444	-
-	(291,230)	(291,230)	-
-	(255,786)	(255,786)	-
(2,050,562)	(255,786)	(2,306,348)	-
-	-	-	(6,213)
1,828,172	127,209	1,955,381	-
340,306	-	340,306	-
78,212	27,690	105,902	1,614
(28,070)	-	(28,070)	-
85,568	-	85,568	-
2,304,188	154,899	2,459,087	1,614
253,626	(100,887)	152,739	(4,599)
3,595,998	3,515,863	7,111,861	60,041
<u>\$ 3,849,624</u>	<u>\$ 3,414,976</u>	<u>\$ 7,264,600</u>	<u>\$ 55,442</u>

City of Rockwood, Michigan

Governmental Funds Balance Sheet June 30, 2006

	Major Special Revenue Funds				Debt Service Fund			
				Commerce	City Hall	Other Nonmajor	Total	
	General Fund	Major Roads	Local Roads	Park	Construction	Governmental Funds	Governmental Funds	
Assets								
Cash and cash equivalents	\$ 628,436	\$ 727,734	\$ 34,031	\$ 139,930	\$ 196,672	\$ 61,286	\$ 1,788,089	
Property taxes - Delinquent	66,586	-	-	-	11,685	-	78,271	
Other receivables	20,983	-	2,524	-	-	-	23,507	
Due from other governmental units	45,329	20,364	9,115	-	-	-	74,808	
Due from other funds	77,582	1,337	31,206	-	-	-	110,125	
Other assets	95,139	-	-	-	-	-	95,139	
Total assets	<u>\$ 934,055</u>	<u>\$ 749,435</u>	<u>\$ 76,876</u>	<u>\$ 139,930</u>	<u>\$ 208,357</u>	<u>\$ 61,286</u>	<u>\$ 2,169,939</u>	
Liabilities and Fund Balances								
Liabilities								
Accounts payable and other accruals	\$ 120,783	\$ -	\$ -	\$ 385	\$ 222	\$ 1,240	\$ 122,630	
Due to other funds	-	35,804	49,165	-	-	1,683	86,652	
Deposits	69,405	-	-	-	-	1,475	70,880	
Deferred revenue	-	-	-	-	-	37,217	37,217	
Total liabilities	190,188	35,804	49,165	385	222	41,615	317,379	
Fund Balances								
Reserved for debt service	-	-	-	-	208,135	-	208,135	
Unreserved:								
Designated - Reported in General Fund (Note 11)	272,862	-	-	-	-	-	272,862	
Undesignated - Reported in:								
General Fund	471,005	-	-	-	-	-	471,005	
Special Revenue Funds	-	713,631	27,711	139,545	-	19,671	900,558	
Total fund balances	743,867	713,631	27,711	139,545	208,135	19,671	1,852,560	
Total liabilities and fund balances	<u>\$ 934,055</u>	<u>\$ 749,435</u>	<u>\$ 76,876</u>	<u>\$ 139,930</u>	<u>\$ 208,357</u>	<u>\$ 61,286</u>	<u>\$ 2,169,939</u>	
Total Fund Balances for Governmental Funds							\$ 1,852,560	
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and are not reported in the funds								5,642,738
Long-term liabilities are not due and payable in the current period and are not reported in the funds								(3,645,674)
Net Assets of Governmental Activities							\$ 3,849,624	

City of Rockwood, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	Major Special Revenue Funds				Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Roads	Local Roads	Commerce Park	City Hall Construction		
Revenue							
Property taxes	\$ 1,537,482	\$ -	\$ -	\$ -	\$ 290,690	\$ -	\$ 1,828,172
Licenses and permits	33,349	-	-	-	-	-	33,349
Federal sources	-	-	-	-	-	13,375	13,375
State sources	341,495	124,824	54,610	-	-	-	520,929
District Court	452,414	-	-	-	-	-	452,414
Interest and rentals	45,649	21,848	554	4,574	5,564	23	78,212
Other	331,116	1,337	-	121	-	53,950	386,524
Total revenue	2,741,505	148,009	55,164	4,695	296,254	67,348	3,312,975
Expenditures							
Current:							
General government	1,060,195	-	-	-	-	-	1,060,195
Public safety	905,446	-	-	-	-	6,129	911,575
District Court	211,163	-	-	-	-	-	211,163
DPW	75,307	-	-	-	-	-	75,307
Public works, street lighting, and rubbish collection	212,384	34,245	81,287	1,514	-	-	329,430
Community center	-	-	-	-	-	62,046	62,046
Recreation and culture	102,667	-	-	-	-	13,375	116,042
Other expenditures	4,057	-	-	-	1,051	-	5,108
Debt service	25,445	-	-	-	297,731	-	323,176
Total expenditures	2,596,664	34,245	81,287	1,514	298,782	81,550	3,094,042
Excess of Revenue Over (Under) Expenditures	144,841	113,764	(26,123)	3,181	(2,528)	(14,202)	218,933
Other Financing Sources (Uses)							
Transfers in	-	-	31,206	-	-	29,721	60,927
Transfers out	(29,721)	(31,206)	-	-	-	-	(60,927)
Proceeds from issuance of debt	23,456	-	-	-	-	-	23,456
Total other financing sources (uses)	(6,265)	(31,206)	31,206	-	-	29,721	23,456
Net Change in Fund Balances	138,576	82,558	5,083	3,181	(2,528)	15,519	242,389
Fund Balances - July 1, 2005	605,291	631,073	22,628	136,364	210,663	4,152	1,610,171
Fund Balances - June 30, 2006	<u>\$ 743,867</u>	<u>\$ 713,631</u>	<u>\$ 27,711</u>	<u>\$ 139,545</u>	<u>\$ 208,135</u>	<u>\$ 19,671</u>	<u>\$ 1,852,560</u>

City of Rockwood, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds **\$ 242,389**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	103,100
Depreciation expense	(310,710)

Proceeds from the sale of capital assets are revenue in the governmental funds, but not in the statement of activity (where the gain or loss on the sale is recorded)	(28,070)
---	----------

Repayment of bond principal and installment debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	267,012
--	---------

Debt proceeds are not reported as financing sources on the statement of activities	(23,456)
--	----------

Decrease in accumulated employee sick and vacation pay	<u>3,361</u>
--	--------------

Change in Net Assets of Governmental Activities **\$ 253,626**

City of Rockwood, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Enterprise Funds		
	Water and Sewer	Wastewater Treatment	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 176,790	\$ 412,334	\$ 589,124
Accounts receivable - Customer billings	129,421	-	129,421
Property taxes - Delinquent	5,026	-	5,026
Due from other funds	-	83,056	83,056
Other receivables	-	1,500	1,500
Inventories	41,097	-	41,097
Total current assets	352,334	496,890	849,224
Noncurrent assets - Capital assets	3,338,056	1,443,678	4,781,734
Total assets	3,690,390	1,940,568	5,630,958
Liabilities			
Current liabilities:			
Accounts payable and other accruals	36,152	61,629	97,781
Due to other funds	106,529	-	106,529
Deposits	17,975	-	17,975
Current portion of long-term debt	60,000	-	60,000
Total current liabilities	220,656	61,629	282,285
Noncurrent liabilities:			
Long-term portion of compensated absences	13,697	-	13,697
Long-term debt - Net of current portion	1,920,000	-	1,920,000
Total noncurrent liabilities	1,933,697	-	1,933,697
Total liabilities	2,154,353	61,629	2,215,982
Net Assets			
Investment in capital assets - Net of related debt	1,358,056	1,443,678	2,801,734
Unrestricted	177,981	435,261	613,242
Total net assets	<u>\$ 1,536,037</u>	<u>\$ 1,878,939</u>	<u>\$ 3,414,976</u>

City of Rockwood, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Enterprise Funds		
	Water and Sewer	Wastewater Treatment	Total
Operating Revenue			
Sale of water	\$ 297,185	\$ -	\$ 297,185
Sale of sewer services	325,582	-	325,582
Sewage disposal charges	-	318,239	318,239
Customer interest and penalty charges	14,325	-	14,325
Total operating revenue	637,092	318,239	955,331
Operating Expenses			
Cost of water purchased	194,702	-	194,702
Cost of sewage treatment	318,239	-	318,239
Plant management charges	-	185,716	185,716
Salaries and fringe benefits	71,312	-	71,312
Professional services	22,073	4,150	26,223
Office administration expenses	6,227	-	6,227
Supplies, maintenance, and other	30,913	44,879	75,792
Utilities	6,706	-	6,706
Miscellaneous	13,891	13,058	26,949
Depreciation	194,989	34,992	229,981
Total operating expenses	859,052	282,795	1,141,847
Operating Income (Loss)	(221,960)	35,444	(186,516)
Nonoperating Income (Expense)			
Property taxes	127,209	-	127,209
Interest income	9,446	18,244	27,690
Interest expense	(86,370)	-	(86,370)
Tap-in fees	17,100	-	17,100
Total nonoperating income	67,385	18,244	85,629
Change in Net Assets	(154,575)	53,688	(100,887)
Transfers			
Transfer in	-	63,029	63,029
Transfer out	(63,029)	-	(63,029)
Transfers in (out)	(63,029)	63,029	-
Net Change in Net Assets	(217,604)	116,717	(100,887)
Net Assets - July 1, 2005	1,753,641	1,762,222	3,515,863
Net Assets - June 30, 2006	<u>\$ 1,536,037</u>	<u>\$ 1,878,939</u>	<u>\$ 3,414,976</u>

City of Rockwood, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Enterprise Funds		
	Water and Sewer	Wastewater Treatment	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 655,900	\$ -	\$ 655,900
Payments to suppliers	(548,953)	(217,746)	(766,699)
Payments to employees	(71,312)	-	(71,312)
Internal activity - Payments to/from other funds	(459,857)	456,163	(3,694)
Net cash provided by (used in) operating activities	(424,222)	238,417	(185,805)
Cash Flows from Capital and Related Financing Activities			
Principal payments on long-term debt	(55,000)	-	(55,000)
Collection of property taxes for debt service	127,209	-	127,209
Interest paid on bonds	(86,370)	-	(86,370)
Tap-in fees	17,100	-	17,100
Cash paid for transferred assets	(63,029)	-	(63,029)
Purchase of capital assets	-	(456,528)	(456,528)
Net cash used in capital and related financing activities	(60,090)	(456,528)	(516,618)
Cash Flows from Investing Activities - Interest received on investments	9,446	18,244	27,690
Net Decrease in Cash and Cash Equivalents	(474,866)	(199,867)	(674,733)
Cash and Cash Equivalents - July 1, 2005	651,656	612,201	1,263,857
Cash and Cash Equivalents - June 30, 2006	<u>\$ 176,790</u>	<u>\$ 412,334</u>	<u>\$ 589,124</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (221,960)	\$ 35,444	(186,516)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	194,989	34,992	229,981
Changes in assets and liabilities:			
Accounts receivable - Customer billings	19,537	-	19,537
Property taxes - Delinquent	(729)	-	(729)
Due from other funds	-	137,924	137,924
Accounts payable and other accruals	(274,441)	30,057	(244,384)
Due to other funds	(141,618)	-	(141,618)
Net cash provided by (used in) operating activities	<u>\$ (424,222)</u>	<u>\$ 238,417</u>	<u>\$ (185,805)</u>

Noncash Activity - The Water and Sewer Fund transferred \$63,029 of capital assets to the Wastewater Treatment Fund.

City of Rockwood, Michigan

Fiduciary Fund Statement of Assets and Liabilities June 30, 2006

	<u>Agency Fund</u>
Assets - Cash and cash equivalents	<u><u>\$ 158</u></u>
Liabilities - Due to other governmental units	<u><u>\$ 158</u></u>

City of Rockwood, Michigan

Component Units Statement of Net Assets June 30, 2006

	TIFA	Economic Development Corporation	Total
Assets - Cash and cash equivalents	<u>\$ 53,476</u>	<u>\$ 1,966</u>	<u>\$ 55,442</u>
Net Assets - Unrestricted	<u>\$ 53,476</u>	<u>\$ 1,966</u>	<u>\$ 55,442</u>

City of Rockwood, Michigan

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	<u>Expenses</u>			
Tax Increment Finance Authority (TIFA) -				
General government	\$ 6,213	\$ -	\$ -	\$ -
Economic Development Corporation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 6,213</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues - Interest

Change in Net Assets

Net Assets - July 1, 2005

Net Assets - June 30, 2006

**Component Units
Statement of Activities
Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets		
Economic Development Corporation		
TIFA		Total
\$ (6,213)	\$ -	\$ (6,213)
-	-	-
(6,213)	-	(6,213)
1,614	-	1,614
(4,599)	-	(4,599)
58,075	1,966	60,041
\$ 53,476	\$ 1,966	\$ 55,442

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Rockwood, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Rockwood, Michigan:

Reporting Entity

The City of Rockwood, Michigan is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for descriptions).

Discretely Presented Component Units

Tax Increment Finance Authority (TIFA)

The Tax Increment Finance Authority (TIFA) was created to encourage development within a certain district of the City. The TIFA's governing body, which consists of eight individuals, is appointed by the mayor and approved by the City Council. In addition, the TIFA's budget is subject to approval by the City Council. During the year ended June 30, 2005, a resolution was passed by the City Council rendering the TIFA legally inactive and, as such, it did not capture taxes in the current year and will not capture taxes in the future.

Economic Development Corporation (EDC)

The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. There was no activity in the EDC in the current year.

The Rockwood Housing Commission

The Rockwood Housing Commission has not been included in the City's reporting entity because the City lacks the ability to impose its will on the Housing Commission under the guidelines of Governmental Accounting Standards Board Statement No. 14 (GASB No. 14). This entity is subject to separate audit requirements.

Note I - Summary of Significant Accounting Policies (Continued)

Jointly Governed Organization

The City is a participant in a jointly governed organization as discussed in Note I3.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Major Roads Fund - The Major Roads Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes and interest on investments.

Local Roads Fund - The Local Roads Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local street portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds, and interest on investments.

Note I - Summary of Significant Accounting Policies (Continued)

Commerce Park Fund - The Commerce Park Fund's purpose is to maintain and improve City-owned land in Commerce Park for eventual sale.

City Hall Construction Fund - The City Hall Construction Fund was used to account for construction and purchase of capital assets for the City Hall complex. Currently, the fund collects property taxes and pays the debt service on the outstanding City Hall bonds.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the activities of the water distribution system and sewage collection system. The fund is financed primarily by a user charge for the provided service.

Wastewater Treatment Fund - The Wastewater Treatment Fund is used to account for the activities of the wastewater treatment plant operated by the City.

Additionally, the City reports the following fund types:

Agency Fund - The Agency Fund is used to account for assets held by the City as an agent for individuals, organizations, other governmental units, or other funds. The Trust and Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of result of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes tap charges as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Property Taxes - Property taxes are assessed as of December 31 and become a lien on December 1 of the following year. The related property taxes are billed on July 1 and December 1 of the following year. These taxes are due on August 31 and February 28, respectively, with the final collection date of February 28 before they are added to the county tax rolls. The City budgets and recognizes all revenue in the fiscal year ending on each June 30 relating to the tax bills issued on the preceding July 1 and December 1, since the proceeds of the tax levy are then available for financing operations.

The 2005 taxable valuation of the City approximated \$91.2 million (a portion of which is abated) on which taxes levied consisted of 16 mills for operating purposes, 1.4 mills for sanitary sewer debt service, 3.2 mills for City Hall building debt service, and 0.2 mills for fire equipment debt service. This resulted in approximately \$1,393,000 for operating, \$127,000 for sanitary sewer debt service, \$290,000 for City Hall building debt service, and \$17,000 for fire equipment debt service. These amounts are recognized in the respective General, Water and Sewer, and City Hall Construction Funds financial statements as tax revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, infrastructure, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure - Roads and sidewalks	10 to 25 years
Infrastructure - Bridges	50 years
Water and sewer distribution systems and components	10 to 50 years
Water and sewer treatment facilities	10 to 39 years
Buildings and building improvements	40 years
Vehicles	3 to 10 years
Furniture	5 years
Equipment	5 to 15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. When material, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Recorded bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first Council meeting in May of the fiscal and budget year (July 1), the mayor shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one week in advance thereof by the clerk.
3. The Council shall, on or before the first Council meeting in June of the next fiscal year, adopt a budget for the ensuing fiscal year.

The annual budget is prepared by the City's management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated.

During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.
- Debt proceeds have been included in revenue rather than as other financing sources.

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Funds as adopted by the City Council is included in the required supplemental information section. No budget was adopted for the Community Development Block Grant Fund. A comparison of the actual results of operations to the Nonmajor Special Revenue Funds' budgets as adopted by the City Council are available at the clerk's office for inspection.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual	Variance with Amended Budget
General Fund			
Administration and general government:			
Legislative	\$ 37,200	\$ 38,670	\$ (1,470)
Executive and legal	76,100	88,853	(12,753)
Clerk	226,498	243,113	(16,615)
Inspections	18,000	23,942	(5,942)
Building	66,459	72,357	(5,898)
Public safety - Fire	83,080	84,340	(1,260)
District Court	211,000	211,163	(163)
Recreation	71,450	132,388	(60,938)
Commerce Park Fund - Other expenses	200	1,514	(1,314)

Fund Deficits - The City has an accumulated fund deficit in the Community Center Fund. The deficit will be eliminated through transfers from the General Fund.

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2005		\$ (13,072)
Current year building permit revenue		30,014
Related expenses:		
Direct costs	\$ 23,942	
Estimated indirect costs	<u>22,500</u>	
Total construction code expenses		<u>46,442</u>
Cumulative shortfall at June 30, 2006		<u>\$ (29,500)</u>

Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority. The Tax Increment Finance Authority also follows the City policies.

Note 3 - Deposits (Continued)

The City's cash and investments are subject to custodial credit risk of bank deposits, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$2,169,325 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

All of the City's component unit's bank deposits were insured at June 30, 2006.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue of \$37,217 has been recorded for federal grant payments received in the form of program income prior to meeting all eligibility requirements for future disbursement.

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 187,805	\$ -	\$ -	\$ 187,805
Construction in progress	88,961	60,050	-	149,011
Capital assets being depreciated:				
Buildings and improvements	4,899,287	-	-	4,899,287
Furniture	670,849	-	-	670,849
Equipment and vehicles	2,471,778	43,050	240,349	2,274,479
Infrastructure	331,814	-	-	331,814
Subtotal	8,373,728	43,050	240,349	8,176,429
Accumulated depreciation:				
Buildings and improvements	858,353	112,413	-	970,766
Furniture	463,595	32,375	-	495,970
Equipment and vehicles	1,238,310	148,689	212,279	1,174,720
Infrastructure	211,818	17,233	-	229,051
Subtotal	2,772,076	310,710	212,279	2,870,507
Net capital assets being depreciated	5,601,652	(267,660)	28,070	5,305,922
Net capital assets	<u>\$ 5,878,418</u>	<u>\$ (207,610)</u>	<u>\$ 28,070</u>	<u>\$ 5,642,738</u>
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution and treatment systems	\$ 6,630,542	\$ 958,972	\$ -	\$ 7,589,514
Buildings and building improvements	616,709	-	-	616,709
Equipment	348,853	-	-	348,853
Construction in progress	439,415	519,557	(958,972)	-
Subtotal	8,035,519	1,478,529	(958,972)	8,555,076
Accumulated depreciation	3,543,361	229,981	-	3,773,342
Net capital assets	<u>\$ 4,492,158</u>	<u>\$ 1,248,548</u>	<u>\$ (958,972)</u>	<u>\$ 4,781,734</u>

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 49,549
Public safety	126,230
Recreation and culture	75,111
Public works	<u>59,820</u>

Total governmental activities	<u>\$ 310,710</u>
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Business-type activities:

Water and sewer	\$ 194,989
Wastewater treatment	<u>34,992</u>

Total business-type activities	<u>\$ 229,981</u>
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Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Water and Sewer Fund	\$ 23,473
	Other nonmajor governmental funds	1,683
	Major Roads Fund	4,598
	Local Roads Fund	<u>47,828</u>
	Total General Fund	77,582
Major Roads Fund	Local Roads Fund	1,337
Local Roads Fund	Major Roads Fund	<u>31,206</u>
	Total governmental funds	110,125
Wastewater Treatment Fund	Water and Sewer Fund	<u>83,056</u>
	Total interfund receivables	<u>\$ 193,181</u>

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other nonmajor governmental fund - Community Center Fund	\$ 29,721
Major Roads Fund	Local Roads Fund	31,206
	Total governmental funds	60,927
Water and Sewer Fund	Wastewater Treatment Fund	63,029
	Total interfund transfers	<u>\$ 123,956</u>

The transfers from the General Fund to the other nonmajor governmental fund represent the use of unrestricted resources to finance community center programs, in accordance with budgetary authorizations; the transfer from the Major Roads Fund to the Local Roads Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfer from the Water and Sewer Fund to the Wastewater Treatment Fund represents the use of funds to help fund the construction of a sewer basin at the wastewater treatment plant.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Long-term obligation activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Balance July 1, 2005	Additions (Reductions)	Balance June 30, 2006	Due Within One Year
Governmental Activities						
General obligation bonds -						
Unlimited tax bonds series 1999:						
Amount of issue: \$4,000,000		\$150,000 -				
Maturing through May 2019	4.50%-4.625%	\$345,000	\$ 3,460,000	\$ (140,000)	\$ 3,320,000	\$ 150,000
Installment purchase agreements:						
33 District Court agreement (Note 13):						
Amount of issue: \$224,600						
Maturing through June 2006	4.70%	\$78,627	78,627	(78,627)	-	-
Street sweeper agreement:						
Amount of issue: \$68,000						
Maturing through August 2005	4.79%	\$22,650	22,650	(22,650)	-	-
Fire truck agreement:						
Amount of issue: \$179,158						
Maturing through May 2015	4.45%	\$17,916	179,158	(17,916)	161,242	17,916
Ford Explorer lease:						
Amount of issue: \$23,456						
Maturing through January 2008	6.20%	\$7,819	-	15,637	15,637	7,819
Total long-term debt			3,740,435	(243,556)	3,496,879	175,735
Compensated absences	N/A	N/A	152,156	(3,361)	148,795	15,000
Total governmental activities			<u>\$ 3,892,591</u>	<u>\$ (246,917)</u>	<u>\$ 3,645,674</u>	<u>\$ 190,735</u>
Business-type Activities						
General obligation bonds -						
Unlimited tax sanitary sewer bonds						
series 1998:						
Amount of issue: \$2,250,000		\$60,000 -				
Maturing through May 2022	3.85%-4.50%	\$165,000	\$ 2,035,000	\$ (55,000)	\$ 1,980,000	\$ 60,000
Compensated absences	N/A	N/A	18,703	(5,006)	13,697	-
Total business-type activities			<u>\$ 2,053,703</u>	<u>\$ (60,006)</u>	<u>\$ 1,993,697</u>	<u>\$ 60,000</u>

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and installment obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 175,735	\$ 159,333	\$ 335,068	\$ 60,000	\$ 83,952	\$ 143,952
2008	190,735	151,356	342,091	70,000	81,642	151,642
2009	202,916	142,677	345,593	75,000	78,912	153,912
2010	217,916	133,551	351,467	85,000	75,912	160,912
2011	237,916	133,555	371,471	95,000	72,512	167,512
2012-2016	1,466,661	440,033	1,906,694	625,000	295,260	920,260
2017-2021	1,005,000	93,888	1,098,888	805,000	144,688	949,688
2022	-	-	-	165,000	7,426	172,426
Total	<u>\$ 3,496,879</u>	<u>\$ 1,254,393</u>	<u>\$ 4,751,272</u>	<u>\$ 1,980,000</u>	<u>\$ 840,304</u>	<u>\$ 2,820,304</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Liability and Property Pool for claims relating to real and personal property and general liability. The City also participates in the Michigan Municipal League Workers' Compensation Fund for workers' compensation claims, and purchases commercial insurance for medical claims. Settled claims relating to insured risks have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan

Plan Description

The City contributes to a group of annuity contracts with Principal Mutual Life Insurance Company that covers all employees of the City who work at least 20 hours per week and five months per year. The system provides retirement and disability benefits to plan members. The Principal Financial Group issues a publicly available financial report that includes financial statements and required supplemental information for the system. The report may be obtained by writing to the system at 710 Ninth Street, Des Moines, Iowa 50392-0001.

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Defined Benefit Pension Plan (Continued)

Effective July 1, 2006, the City's retirement plan will be through the Municipal Employees' Retirement System of Michigan.

Funding Policy

The funding policy provides for employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due. No contribution is required from the employees. The obligation to contribute to and maintain the system was established by resolution of the City Council.

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$98,513 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at April 1, 2005, using the aggregate cost method. Significant actuarial assumptions include (a) an interest rate of 6.0 percent, (b) projected salary increases ranging from 3.88 percent to 7.1 percent, depending on the individual employee's age, and (c) no cost of living adjustment. Both (a) and (b) include an inflation component of 2.0 percent. Amortization of the unfunded actuarial liability is not applicable given the use of the aggregate cost method due to the fact that this method does not identify or separately amortize unfunded actuarial liabilities.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2006	2005	2004
Annual pension costs (APC)	\$ 98,513	\$ 76,849	\$ 94,075
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 10 - Wastewater Treatment Plant Fund

During the year ended June 30, 1983, the City entered into an agreement with Wayne County to lease a wastewater treatment plant from the county for a period of 99 years for a cost of \$1. The estimated fair market value of the plant at the time of acquisition was recorded as an asset in the Wastewater Treatment Plant Fund and all subsequent additions and major repairs to the plant have been capitalized.

City of Rockwood, Michigan

Notes to Financial Statements June 30, 2006

Note 10 - Wastewater Treatment Plant Fund (Continued)

The City has an operation and maintenance agreement with an engineering firm to provide all routine operation and maintenance services for the treatment plant through June 2006. The agreement was renewed through June 2006. The monthly fee associated with these services at June 30, 2006 was \$15,443. This fee is subject to review each January and may be adjusted by a mutually acceptable cost of living index. Additional services that are not considered routine are billed separately to the City.

Note 11 - Designated Fund Balance

Fund balance of the General Fund has been designated for the following purposes:

ETSC training funds	\$ 2,456
Bike path	16,965
Accumulated sick days	109,279
Recreation	7,591
City administration and maintenance equipment	2,146
Police training	2,425
Future retirement health care	100,000
Retirement benefits	<u>32,000</u>
Total	<u>\$ 272,862</u>

Note 12 - Other Postemployment Benefits

The City provides health care benefits to all employees upon retirement. Currently, six retirees are eligible. The City includes retirees and their spouses in its insured health care plan with some contribution required by the participants, depending on years of service. Expenses for postemployment health care benefits are recognized as the insurance premiums become due and totaled \$64,604 during the year ended June 30, 2006.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the City's year ending June 30, 2009.

Note 13 - Joint Venture

The City is a member of the 33rd District Court System (the "District Court"), which provides judicial services to the City and other neighboring communities. The City appoints one member to this joint venture's governing board who then approves the annual budget. The District Court receives its operating revenue principally through contributions from member communities. During the current year, the City received approximately \$277,940 from the District Court, representing the City's share of the District Court's net activity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future, other than the fluctuation of case loads, which impacts the governments' share of the District Court debt. Complete financial statements are available through the City offices.

During 1995, the City and various other surrounding communities entered into an installment purchase agreement with a bank on behalf of the District Court. The communities collectively agreed to finance the construction of an addition to the District Court for a total cost of approximately \$2,000,000.

The intention of the District Court is to make the monthly interest and principal payments on behalf of the communities. In the event that payments are not received by the bank when due, each community will be responsible for its proportionate share of the debt based on court usage. The City's original estimated share of this debt was anticipated to be 12.23 percent but has been averaging approximately 6 percent over the past several years. The City's portion of the related building addition and their equity interest in the District Court has been deemed insignificant by the City and has not been recorded as an asset.

For each community, the "share" is the percentage of the total amount of any payment due equal to a fraction, the numerator of which is the total cases handled by the District Court for that community from January 1 to December 31 of the year immediately preceding the year in which the payment is due, and the denominator of which is the total number of cases handled by the District Court for the same time period. The share for the City through June 30, 2006 approximated 7 percent. In the current year, the entire debt balance was paid.

Required Supplemental Information

City of Rockwood, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property Taxes				
Real and personal property taxes	\$ 1,444,916	\$ 1,479,416	\$ 1,500,382	\$ 20,966
Tax penalty	5,000	7,900	7,919	19
Tax administration fees	25,000	29,100	29,181	81
Total property taxes	1,474,916	1,516,416	1,537,482	21,066
State Sources				
Revenue-sharing	337,200	337,200	340,306	3,106
Liquor license fees and other	1,200	1,200	1,189	(11)
Total state sources	338,400	338,400	341,495	3,095
Licenses and Permits	18,000	28,000	33,349	5,349
District Court	400,000	437,000	452,414	15,414
Interest and Rental Revenue	10,000	24,112	45,649	21,537
Intragovernmental Revenue - Reimbursements -				
Roads and water and sewer	124,743	129,743	163,451	33,708
Other Revenue				
Weed cutting	6,000	6,000	6,950	950
PILOT (senior citizen building)	9,000	9,000	9,430	430
Franchise fees	66,000	69,100	67,187	(1,913)
Park usage and donation	100	100	649	549
Miscellaneous income	3,700	13,700	19,606	5,906
Police training	2,800	2,800	5,101	2,301
Refuse disposal	105,500	104,100	104,112	12
Ambulance service	25,000	36,320	53,294	16,974
Workers' compensation refund	-	4,738	4,738	-
Greenways grant	-	-	60,049	60,049
Total other revenue	218,100	245,858	331,116	85,258
Total revenue	2,584,159	2,719,529	2,904,956	185,427

City of Rockwood, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<u>Expenses</u>				
Administration and General Government				
Legislative	\$ 37,200	\$ 37,200	\$ 38,670	\$ (1,470)
Executive and legal	32,100	76,100	88,853	(12,753)
Board of Review	600	600	600	-
Elections	12,000	7,000	4,473	2,527
Assessor	15,000	15,000	11,963	3,037
Clerk	221,371	226,498	243,113	(16,615)
General services	577,898	605,241	604,868	373
Inspections	15,000	18,000	23,942	(5,942)
Treasurer	7,840	7,840	6,190	1,650
Building	58,959	66,459	72,357	(5,898)
Total administration and general government	977,968	1,059,938	1,095,029	(35,091)
Public Safety				
Police	856,764	831,764	797,650	34,114
Fire	83,080	83,080	84,340	(1,260)
Total public safety	939,844	914,844	881,990	32,854
District Court	199,000	211,000	211,163	(163)
DPW	199,687	204,687	203,924	763
Street Lighting and Rubbish Collection	215,360	219,360	212,384	6,976
Recreation	39,500	71,450	132,388	(60,938)
Other	12,800	38,250	29,502	8,748
Total expenses	2,584,159	2,719,529	2,766,380	(46,851)
Excess of Revenue Over Expenses	-	-	138,576	<u>\$ 138,576</u>
Fund Balance - July 1, 2005	605,291	605,291	605,291	
Fund Balance - June 30, 2006	<u>\$ 605,291</u>	<u>\$ 605,291</u>	<u>\$ 743,867</u>	

City of Rockwood, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2006

Major Roads Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 120,000	\$ 120,000	\$ 124,824	\$ 4,824
Other income	-	-	1,337	1,337
Interest income	5,000	5,000	21,848	16,848
Total revenue	125,000	125,000	148,009	23,009
Expenses				
Public works	90,000	90,000	34,245	55,755
Transfer to other fund	35,000	35,000	31,206	3,794
Total expenses	125,000	125,000	65,451	59,549
Excess of Revenue Over Expenses	-	-	82,558	\$ 82,558
Fund Balance - July 1, 2005	631,073	631,073	631,073	
Fund Balance - June 30, 2006	\$ 631,073	\$ 631,073	\$ 713,631	

Local Roads Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 50,000	\$ 50,000	\$ 54,610	\$ 4,610
Interest income	500	500	554	54
Transfer from other fund	35,000	35,000	31,206	(3,794)
Total revenue	85,500	85,500	86,370	870
Expenses - Public works	85,500	85,500	81,287	4,213
Excess of Revenue Over Expenses	-	-	5,083	\$ 5,083
Fund Balance - July 1, 2005	22,628	22,628	22,628	
Fund Balance - June 30, 2006	\$ 22,628	\$ 22,628	\$ 27,711	

City of Rockwood, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2006

Commerce Park Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Interest income	\$ 200	\$ 200	\$ 4,574	\$ 4,374
Other income	-	-	121	121
Total revenue	200	200	4,695	4,495
Expenses				
Other expenses	200	200	1,514	(1,314)
Transfer to General Fund	-	-	-	-
Total expenses	200	200	1,514	(1,314)
Excess of Revenue Over Expenses	-	-	3,181	\$ 3,181
Fund Balance - July 1, 2005	136,364	136,364	136,364	
Fund Balance - June 30, 2006	\$ 136,364	\$ 136,364	\$ 139,545	

City of Rockwood, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2006

The schedule of funding progress is as follows:

Actuarial Valuation Date (Year Beginning April 1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	UAAL as a Percentage of Valuation Payroll
2000	\$ 852,107	\$ 852,107	\$ -	100.0	\$ 554,566	-
2001	980,216	980,216	-	100.0	608,189	-
2002	1,240,834	1,240,834	-	100.0	590,594	-
2003	1,378,006	1,378,006	-	100.0	564,454	-
2004	1,406,516	1,406,516	-	100.0	533,508	-
2005	1,472,431	1,472,431	-	100.0	714,853	-

The schedule of employer contributions is as follows:

Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
2001	04/01/00	\$ 64,711	100.0
2002	04/01/01	69,190	100.0
2003	04/01/02	55,898	100.0
2004	04/01/03	94,075	100.0
2005	04/01/04	76,849	100.0
2006	04/01/05	98,513	100.0

Actuarial cost method	Aggregate cost
Amortization method	Not applicable
Remaining amortization period (perpetual)	Not applicable
Asset valuation method	Contract basis
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases*	3.88% to 7.10% depending on individual employee's age
	2.0%
*Includes inflation at	None
Cost of living adjustments	

Other Supplemental Information

City of Rockwood, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Drug Forfeiture	Community Center	Community Development Block Grant	
Assets				
Cash and investments (overdraft)	<u>\$ 25,183</u>	<u>\$ (2,797)</u>	<u>\$ 38,900</u>	<u>\$ 61,286</u>
Liabilities and Fund Balances (Deficit)				
Liabilities				
Accounts payable	\$ -	\$ 1,240	\$ -	\$ 1,240
Due to other funds	-	-	1,683	1,683
Deposits	-	1,475	-	1,475
Deferred revenue	<u>-</u>	<u>-</u>	<u>37,217</u>	<u>37,217</u>
Total liabilities	-	2,715	38,900	41,615
Fund Balances (Deficit) - Undesignated	<u>25,183</u>	<u>(5,512)</u>	<u>-</u>	<u>19,671</u>
Total liabilities and fund balances (deficit)	<u>\$ 25,183</u>	<u>\$ (2,797)</u>	<u>\$ 38,900</u>	<u>\$ 61,286</u>

City of Rockwood, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - Nonmajor Governmental Funds Year Ended June 30, 2006

	Special Revenue Funds			Total
	Drug Forfeiture	Community Center	Community Development Block Grant	Nonmajor Governmental Funds
Revenue				
Federal sources	\$ -	\$ -	\$ 13,375	\$ 13,375
Interest income	15	8	-	23
Other	25,374	28,576	-	53,950
Total revenue	25,389	28,584	13,375	67,348
Expenditures - Current				
Recreation and culture	-	-	13,375	13,375
Public safety	6,129	-	-	6,129
Community center	-	62,046	-	62,046
Total expenditures	6,129	62,046	13,375	81,550
Excess of Revenue Over (Under) Expenditures	19,260	(33,462)	-	(14,202)
Other Financing Sources - Transfer in	-	29,721	-	29,721
Net Change in Fund Balances (Deficit)	19,260	(3,741)	-	15,519
Fund Balances (Deficit) - July 1, 2005	5,923	(1,771)	-	4,152
Fund Balances (Deficit) - June 30, 2006	<u>\$ 25,183</u>	<u>\$ (5,512)</u>	<u>\$ -</u>	<u>\$ 19,671</u>



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August 15, 2006

To the Honorable Mayor and
Members of the City Council
City of Rockwood
32409 Fort Street
Rockwood, MI 48173

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Rockwood, Michigan (the "City") for the year ended June 30, 2006. In addition to the audit report, we offer the following comments for your consideration:

State-shared Revenue

Municipalities in Michigan have and will continue to feel the effects of the slowdown in the State's economy. State-shared revenue totaled \$340,306 in 2006 and accounted for 12 percent of the City's total General Fund revenue (as recently as the year ended 2000, it accounted for more than 18 percent). Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to state-shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$98,000 at risk in its General Fund budget based on the State's budget for the 2006-2007 year. We will continue to update the City as developments occur. The statutory formula expires in 2007 and requires action by the legislature.

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Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2006	3.3%	2001	3.2%
2005	2.3%	2000	1.9%
2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%

As indicated above, growth in existing property is significantly limited due to Proposal A to an average of 2.48 percent annually over the past 10 years. This factor should be considered when the City is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite general operating charter mills of 20, currently the Headlee limited mills are 16.7725 (a reduction of over 15 percent).

Water and Sewer Fund

Flat Rock - During the current year, the City fell behind in its wholesale water billings to the City of Flat Rock. Given the limited working capital available in the Water and Sewer Fund, we would suggest keeping these billings up to date.

Inventory - The Water and Sewer Fund had inventory totaling \$40,597 at June 30, 2006 (general inventory and meters). The account balance has not changed in over two years and a physical inventory of these items was not performed at year end. We would suggest performing a physical inventory and adjusting the general ledger balance if necessary.

Working Capital and Reserves - With the recent construction of the equalization basin, the Water and Sewer Fund has depleted much of its working capital buffer and all of its previously held reserves for maintenance and improvement. Currently, the combined funds have fixed assets with a historical cost of \$8.6 million that have accumulated \$3.8 million of depreciation. We would encourage the City to consider implementing a new reserve program when considering the user fees on a go-forward basis.

Reconciling Activities

During our testing, we again noted instances of a lack of reconciliation between the subsidiary ledger details and the general ledger for the performance bonds and the pass-through accounts. While the discrepancies noted were not material to the City's financial statements, we would suggest that timely, recurring reconciliations be performed related to these items.

Act 51

Surplus Transfer - Public Act 51 has been modified to allow local governments to transfer monies from their Major Roads Fund to their Local Roads Fund if an excess exists. As a condition of the transfer, the amended law requires that certain conditions be met, including the adoption of an asset management process for the major and local roads systems. It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Roads Fund to the Local Roads Fund can only be done to the extent that local revenues exist in the Major Roads Fund. There is also currently legislation proposed that would allow for the combination of the Major Roads Fund and the Local Roads Fund if certain conditions are met.

Annual Transfer - The City currently only transfers 25 percent of the Act 51 funds received from the State by the Major Roads Fund on an annual basis to the Local Roads Fund. If additional funds are needed in the Local Roads Fund, additional amounts up to 100 percent of the Major Roads Act 51 revenue may be transferred from the Major Roads Fund. In order to transfer more than 25 percent of the funds, the City would need to adopt a resolution with a copy to the Michigan Department of Transportation setting forth all of the following:

- a) A list of the major streets in the City
- b) A statement that the City is adequately maintaining its major streets
- c) The dollar amount of the transfer
- d) The local streets to be funded with the transfer

Nonmotorized Improvements - Given the City's current involvement with nonmotorized improvements and roadside parks, we would like to remind the City of the following set of facts related to opportunities to apply Act 51 monies toward these types of projects. There are no annual limits on the amount of Act 51 funds that can be applied to nonmotorized improvements as defined under Act 51. However, the City is required to have cumulative expenditures for nonmotorized improvements exceeding 10 percent of Act 51 annual receipts over the past 10 years. Related to spending on roadside parks, a limitation of 5 percent of annual receipts is required. In addition, it is not possible to apply costs retroactively from prior periods.

Grants

Park - As discussed in last year's letter, in 2004 the City received a \$315,000 grant from Wayne County for the development of Patricia Lezotte-Quick Park. As of June 30, 2006, \$180,291 of the grant money had been spent on the park project and there is \$134,709 of grant funds remaining. The estimated total project cost for the park is \$1,215,000. As of June 30, 2006, the City has not received any additional grants for this project. Under the terms of the grant agreement with Wayne County, the City will need to pursue additional grants to help fund the project. If the City has determined to modify the scope of the project, we would suggest having the county agree to the modification in writing as stipulated in Section 5.4 of the related intergovernmental agreement.

CDBG - As of June 30, 2006, the City had \$37,216 of unused CDBG housing rehab money. The City has the opportunity to review its plan for these funds and decide if they are going to continue to be applied to the rehab program or possibly re-program to the general CDBG budget (reprogramming the funds would require county approval).

Budgeting

In the current year, the City did not prepare and approve an official budget for the CDBG Fund. Under the State Budget Act, the City is required to approve a budget for the General Fund and all Special Revenue Funds on an annual basis.

Retiree Health Care Benefits

As discussed in last year's letter, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets. Since the City has less than 100 participants, this valuation will not need to be performed by an actuary. This statement is effective for the City's fiscal year ending June 30, 2009.

Currently, the City has funds designated within the General Fund fund balance related to beginning to fund this liability. We would encourage the City to establish a separate Special Revenue Fund under PA ACT 149 of 1999. This would allow for the investment of the designated funds in accordance with the Pension Act and allow for the potential of a greater return on the related investments.

To the Honorable Mayor and
Members of the City Council
City of Rockwood

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August 15, 2006

We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you have any questions or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Blake Roe". The signature is written in a cursive, flowing style.

Blake M. Roe

A handwritten signature in black ink that reads "William Brickey". The signature is written in a cursive, flowing style.

William E. Brickey